LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 683** HLS 09RS 1267

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 30, 2009 2:23 PM

Author: MONICA

Dept./Agy.: Natural Resources

Subject: Deep Drilling On State Lands Ad Valorem Tax Credit

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MINERALS/RIGHTS-ROYALTY EG -$843,000 GF RV See Note

Provides a royalty payment offset for ad valorem taxes paid for deep oil and gas drilling and production

Proposed law requires the State Mineral Board to enter into an agreement with the lessee (oil or gas well 15,000 feet or greater which is permitted after July 1, 2009) under any present and future mineral lease or leases on land, lakes, river beds, and other water bottoms belonging to the state on which the state owns both the mineral leasing rights and royalty rights and will receive a proportionate credit on the amount of the royalty obligation, for payment of all ad valorem taxes properly assessed on any well in the parish where the lease is located. In the event the approved ad valorem tax credit exceeds the royalty obligation in any year, the excess credit can be carried forward in future years. Provisions of this section shall not apply to royalties remitted to the parish in which the severance or production occurs.

EXPENDITURES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	($843,000)	($1,700,000)	($2,400,000)	($3,200,000)	($3,900,000)	**($12,043,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($843,000)**	**($1,700,000)**	**($2,400,000)**	**($3,200,000)**	**($3,900,000)**	**($12,043,000)**

EXPENDITURE EXPLANATION

In order to implement the proposed legislation, the Department of Natural Resources (DNR) indicates the need for an auditor position. Workload in the first year will include writing rules and setting up a tracking system to handle the program. Workload in subsequent fiscal years will include qualifying wells, tracking royalty and ad valorem taxes and audit functions associated with the program. One auditor position would increase expenditures by approximately $77,000 (salary and related benefits) annually.

REVENUE EXPLANATION

The Department of Natural Resources estimates that seven new wells will qualify each year based on the average number of wells drilled on State acreage from January 2005 through December 2008. DNR provided estimates of state royalty revenue losses based on this well count and various parameters, as outlined below

Well productive life will be greater than six years.
Well costs will remain at 2008 levels.
Natural gas prices are "Base Case" prices projected by DNR.
Average depth of productive interval 15,000 feet - 17,499 feet is 16,393 feet.
Ad valorem tax rates range between 52.5 mils to 165.5 mils for tax districts surveyed. 95 mils used in calculations.
Assessed value for new wells is from the Louisiana Tax Commission Rules, Chaper 9 Section 901 "Guidelines for Ascertaining the Fair market Value of Oil and Gas Properties", Table 907.A-3.
Adjusted assessed value factors for wells from previous years are from Table 907.B-2.

A first year ad valorem tax level and consequent royalty credit was calculated as:
16,393 feet x $77.29 per foot (assessed value) x 95 mils (ad valorem tax rate) x 7 wells = $842,565
Subsequent year calculations would add the same amount for new wells plus a depreciated amount for existing wells:
For example, $842,565 (first year royalty credit for seven new wells) + $808,862 (credit based on depreciated value of first year wells) = $1,651,427 second year royalty credit

Under the basic model depicted here, total annual credits would grow as new wells enter the program and old wells are retained at diminishing values. An approximate plateau of credit cost would be reached by the sixth year (under DNR well-life assumption), but new wells would be added at higher costs over time (not at 2008 costs as in DNR assumption). the table above depicts the annual ramp-up of credit costs under these assumptions. The amount and timing of actual annual credits realized will depend on the number of participating wells and their cost, their royalty production value, assessed value, and when their property taxes are paid. Credits not used in any year can be carried forward for use in a subsequent year.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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